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SUBJECT: China's Largest Association of Taiwan Investors Complains  
of "Cold Winter" Coming for PRD Factories

REF: A) Guangzhou 518, B) Guangzhou 618, C) Guangzhou 655

1. (SBU) Summary: Approximately 500 out of 6,000 Taiwan-invested enterprises have closed in the Pearl River Delta (PRD) city of Dongguan since last year, with more closures to come over the Lunar New Year holiday, according to the Secretary General of the Dongguan Taiwan Businessmen's Association (DG TBA), the largest local association of Taiwan investors in China. He highlighted falling overseas demand for China's exports among the many factors that have made business difficult for labor-intensive export manufacturers. However, he acknowledged that, despite the many closures, the DG TBA's membership had remained stable and noted that some more competitive firms see a brighter future because they expect their market share to increase as weaker players are eliminated. The executive believes that local officials are doing an effective job of dealing with demonstrations by disgruntled workers who have been laid off due to factory closures and that public security and social stability have not seriously deteriorated. He commented that new economic conditions will make it even harder to encourage labor-intensive factories in the PRD to move inland. End summary.

Taiwan Investors Face Chilly Prospects...

2. (SBU) Taiwan firms in Dongguan face a "cold winter," according to DG TBA Secretary General Zhao Weinan. Approximately 500 firms have shut down over the past year, out of a total of 6,000 Taiwan-invested enterprises in the city. He predicted that we would see many more closures around the Lunar New Year holiday when migrant workers return home. Investors have complained a lot about worsening conditions in the past, Zhao said, but this time "the suffering is real." In addition to closures, factories are downsizing or merging several factories into one facility. Zhao noted that the impact on the shoe industry had been particularly negative.

3. (SBU) Zhao highlighted declining orders from overseas export markets among many factors that have made the economic environment difficult for Dongguan's Taiwan-invested firms. He said most firms were already seeing fewer orders for the holiday season and now the global financial crisis had made the situation worse. He also complained that the Labor Contract Law had made relations between employers and workers "less harmonious" -- specifically criticizing restrictions on overtime work, which he called "too detailed and rigid." Zhao also said that Taiwan firms were finding it even more difficult to get credit because banks were concerned about their falling orders. He pointed out that not only were banks refusing to lend, some had even called in outstanding loans.

4. (SBU) Strong supply chains continue to be one of Dongguan's chief advantages, according to Zhao, but changing conditions are straining relationships between buyers and suppliers. He noted that trade disputes are increasing in frequency and that some buyers have

refused to honor orders placed earlier because their own sales are dropping.

#### But the Strong Will Flourish

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15. (SBU) Nevertheless, Zhao also said that some DG TBA members see brighter futures as harsh conditions weed out the weakest competitors. The best companies expect to increase their market share. They believe that when orders eventually start to rise again, it will be a seller's market. Zhao also acknowledged that despite the high number of factory closures, the total number of DG TBA members had remained basically stable. Comment: The fact that factory closures that have received so much media attention have had a negligible effect on the number of DG TBA members suggests that it's still only the most marginal industry players that are shutting down. End comment.

#### Disgruntled Migrant Labor Not a Threat Yet

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16. (SBU) Noting the increased frequency of demonstrations by laid-off workers, Zhao commented that he did not believe that local security conditions had deteriorated. He praised the government and the Communist Party's response to recent factory closures, especially efforts by township and village governments to pay back wages. Zhao also said that the DG municipal government had been particularly responsive to the concerns of Taiwan investors, meeting monthly with foreign investors and lobbying Beijing for measures to ease conditions for labor-intensive manufacturers in the PRD. He believes these efforts helped secure recent increases in value-added-tax rebates and implementation regulations for the Labor

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Contract Law that benefit Taiwan enterprises.

#### "Double Transfer" in a Deep Freeze

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17. (SBU) Zhao believes that despite the government's "double transfer" policy of encouraging labor-intensive manufacturing in the PRD to move inland (ref A), there will be few Taiwan factories moving under current conditions. Most firms that had any plan to move have already done so. Others that might have considered moving are now waiting and watching the overall economic conditions, according to Zhao. He argued that government efforts to encourage Taiwan factories to move would be ineffective, in part because some investors feared that incentives offered at inland destinations wouldn't be sustained.

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